

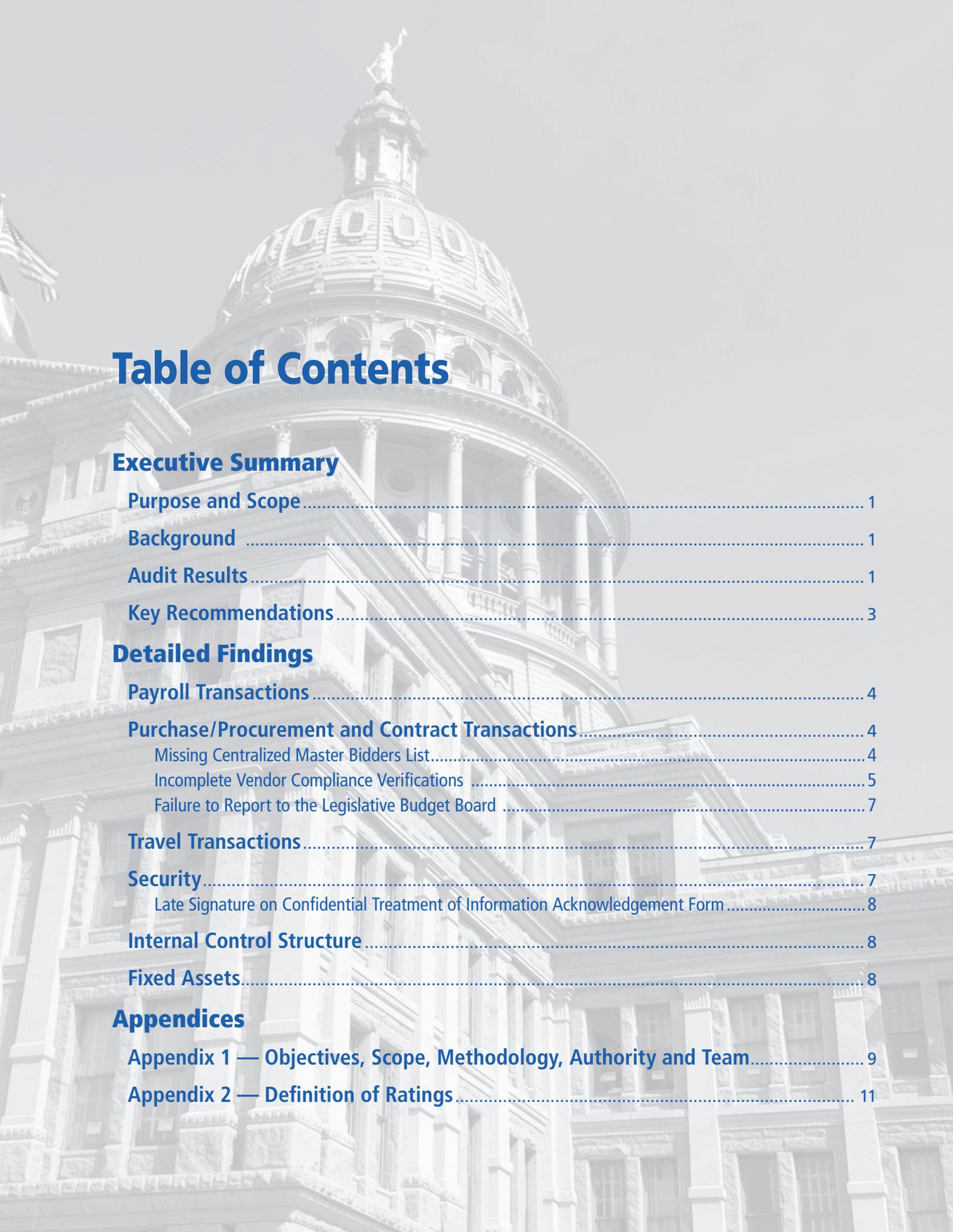


# An Audit of the Texas Water Development Board

Audit Report # 580-18-Q4  
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Texas Comptroller of Public Accounts





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# Executive Summary

## Purpose and Scope

Objectives of the Texas Water Development Board (Board) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period beginning March 1, 2017, through Feb. 28, 2018.

## Background

The Board was created in 1957. Its mission is to provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas.

**Texas Water Development Board  
website**

<https://www.twdb.texas.gov/>

To accomplish its goals of planning for the state's water resources and providing affordable water and wastewater services, the Board provides water planning, data collection and dissemination, financial assistance, and technical assistance services to the citizens of Texas. The tremendous population growth that the state continues to experience and the recurrent threat of severe drought only intensify the need for the Board to accomplish its goals in an effective and efficient manner.

## Audit Results

The Board generally complied with the General Appropriations Act (GAA), other relevant statutes and Comptroller requirements. Auditors found no issues with payroll, travel, non-overnight travel and internal control structure. However, the Board should consider making improvements to its purchase/procurement, contract and security processes. An overview of audit results is presented in the following table.

## Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Purchase/ Procurement Transactions</u>	Did purchase and procurement transactions comply with all pertinent statutes and Comptroller requirements?	Seven contracts missing procurement and contract documentation.	Compliant, Findings Issued
<u>Contract Transactions</u>	Did contracts and contract transactions comply with all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> <li>• One contract missing procurement and contract documentation.</li> <li>• One contract amendment was not reported to the LBB.</li> </ul>	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, other pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Internal Control Structure	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	No issues	Fully Compliant
<u>Security</u>	Did all system access to process payments comply with all the Comptroller security guidelines?	Three records had Confidential Treatment of Information Acknowledgement (CTIA) forms signed after the employees had accessed the state systems.	Compliant, Findings Issued
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting System?	No issues	Fully Compliant



## Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The Board must ensure that Centralized Master Bidders List (CMBL) searches are performed for applicable purchases, and that a printout of these dated CMBL search results is included in the contract file.
- The Board must obtain proof that a complete Vendor Compliance Verification was done, and show testimony of its results.
- The Board must report contracts to the Legislative Budget Board (LBB) database as required.
- The Board must implement controls to ensure that no user gains access to the statewide financial systems without signing a completed Confidential Treatment of Information Acknowledgement (CTIA) form first.



# Detailed Findings

## Payroll Transactions

Auditors developed a representative sample from a group of 30 employees and 143 payroll transactions totaling \$534,637.39, to ensure that the Board complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Audit tests revealed no findings for this group of transactions. Additionally, a limited sample of 10 voluntary contributions transactions were audited with no findings identified.

An additional 22 employee files identified in ad-hoc state service payroll reports, run outside of the sample, were audited. Audit tests revealed no findings in these payroll transactions.

## Purchase/Procurement and Contract Transactions

Auditors developed a representative sample of 50 purchase/procurement and contract transactions totaling \$2,422,288.38, as well as two vendor contracts (with a total of 15 transactions) for \$2,250,000 and \$1,000,000 to ensure that the Board complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and other pertinent statutes.

The Board paid \$108.61 in related prompt payment interest during the audit period.

## Missing Centralized Master Bidders List

Eight purchase/procurement transactions from four contracts totaling \$116,285.51 out of 65 audited transactions did not include a dated Centralized Master Bidders List (CMBL) solicitation printout. Without the dated CMBL, we were unable to determine if all CMBL vendors were actually solicited for the procurement processes. The Board stated that it pulled the CMBL on the correct day but the dated screen print was not saved due to a misinterpretation of the rule. The Board must obtain proof that the CMBL system was checked prior to any award or contract renewal being made by Texas government entities. See [Texas Government Code, Sections 2155.263](#) and [2155.264](#), and [34 Texas Administrative Code Section 20.107\(g\)](#).

### Centralized Master Bidders List (CMBL)

The CMBL is a database of registered vendors who have provided contact information, as well as a list of the goods and services they offer. Vendors pay a nominal annual fee to receive notification of opportunities for solicited commodities and/or services through an invitation for bid, request for proposal, request for offer or request for qualifications. Unless exempted by law, the CMBL must be used for all procurements subject to the authority of the Statewide Procurement Division and to gather information for noncompetitive procurement processes and vendor performance data.



Also, the Board must print out the awarded vendor's CMBL profile showing the expiration date for file documentation. See [State of Texas Procurement and Contract Management Guide](#) – Centralized Master Bidders List section.

## Recommendation/Requirement

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To ensure adherence to the rules and laws that govern state procurement practices, all agencies and institutions of higher education must use the CMBL for all purchases, including services for which competitive bidding or competitive sealed proposals are required. The Board must ensure that a copy of the dated CMBL search results from the specified website is used as evidence of the vendor search being performed by the Board and included in the contract file.

## Board Response

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*The TWDB agrees with the finding. For each of the instances reviewed in this post-payment audit, a spreadsheet capturing the CMBL listing of vendors was included with a time stamp of the review performed by TWDB staff, but the documentation included was not the actual print from the CMBL. Procedures have been changed to include the actual dated CMBL print from the Comptroller's site with the TWDB procurement files.*

## Incomplete Vendor Compliance Verifications

Out of 65 transactions, auditors identified seven purchase/procurement transactions from seven contracts totaling \$797,429.57 and one contract transaction for \$1,000,000, where the Board was unable to provide a complete checklist of vendor compliance verification (VCV) documents. The agency must provide a screen print showing that each verification was performed. The Board stated that this issue occurred due to a misinterpretation of the statute.

## Debarment Check

The agency must check the debarred vendor list posted on the [Comptroller's Debarred Vendor Lists website](#) to establish that the vendor has not been debarred by the Statewide Procurement Division (SPD). An agency may not award a contract to a debarred vendor, according to [Texas Government Code, Section 2155.077](#).

## System of Award Management Check

The agency must check the System for Award Management (SAM) database to verify that the vendor is not excluded from grant or contract participation at the federal level. A contract cannot be awarded to a vendor named on the U.S. Treasury Department, Office of Foreign Assets Control's master list of Specially Designated Nationals and Blocked Persons. See [Presidential Executive Order 13224](#).



## Iran, Sudan, and Foreign Terrorist List Organization Check

Governmental entities may not contract with a company doing business with Iran, Sudan, or a foreign terrorist organization. See [Texas Government Code, Sections 2252.001\(2\)](#) and [2252.152](#). Prior to award, the agency must check the divestment lists to determine if the potential awardee is in violation of this requirement, required by [Texas Government Code, Sections 2252.153](#) and [2270.0201](#). The divestment lists are maintained by the Texas Safekeeping Trust Company and posted to the [Comptroller's Divestment Statute Lists website](#). If the business is in violation, the contract may not be awarded to that vendor.

## Boycott Israel Check

Governmental entities may not contract with a company for goods or services unless the contract contains a written verification from the company that it does not boycott Israel and will not boycott Israel during the term of the contract. See [Texas Government Code, Sections 2270.001\(3\)](#) and [2270.002](#). Prior to award, the agency must check the divestment lists to determine if the potential awardee is in violation of this requirement, as required by [Texas Government Code, Section 808.051](#). If the potential awardee is on the list, the contract may not be awarded to that vendor.

## Warrant/Payment Hold Check

The agency must check warrant hold status of the vendor in the following circumstances: (1) transaction involves a written contract; (2) payment is made with local funds; or (3) payment card purchase is over \$500. See [TexPayment Resource – Hold Special Circumstances, Local Funds](#) and [Payment Card Purchases](#). The agency cannot proceed with a purchase made with local funds or a payment card purchase over \$500 until the warrant hold has been released. For transactions involving a written contract, the warrant hold check must be performed not earlier than the seventh day before and not later than the date of contract execution. If the vendor is on warrant hold, the agency may not enter into a written contract with the person unless the contract requires the agency's payments under the contract to be applied directly toward eliminating the person's debt or delinquency. The requirement specifically applies to any debt or delinquency, regardless of when it arises. Although payments made through the Uniform Statewide Accounting System (USAS) are automatically checked for holds, and the system identifies payments issued to persons with outstanding state debt, this does not relieve an agency from conducting the warrant hold status check, in accordance with [Texas Government Code, Section 2252.903](#).

## Franchise Tax Check

It is recommended that the Board search the vendor's franchise tax account status using the account status directory, located on the [Comptroller's website](#). Not all vendors are required to pay franchise tax. The Texas franchise tax is a privilege tax imposed on each



taxable entity formed or organized in Texas or doing business in Texas. The Comptroller is required by law to forfeit a company's right to transact business in Texas if the company has not filed a franchise tax report or paid a franchise tax required under the [Texas Tax Code, Section 171.251](#). If the corporate privileges are forfeited, the entity will be denied the right to sue or defend itself in a Texas court, and each director or officer will be liable for the debt of the entity under [Texas Tax Code, Section 171.255](#). The Board should consult agency counsel prior to awarding a contract to a vendor that does not have the right to transact business in Texas.

## Recommendation/Requirement

The Board must conduct every VCV search prior to any purchase, contract award, extension, and renewal. A final check of the Special Designated Nationals (SDN) listing must be made prior to any contract award to ensure the Board does not award contracts to any person or vendor whose name appears on the SDN list. A dated copy of the review results from the specified website must be retained as evidence and it must be included in the procurement file.

## Board Response

*The TWDB agrees with the finding. For each of the instances reviewed in this post-payment audit, a contract initiation form (CIF) was included with the procurement file that was signed by a member of the Contracting and Purchasing staff indicating that vendor compliance was completed to include tax identification, debarment and the Specially Designated Nationals listings. Procedures have been changed to include the dated and printed copy of each of the required vendor compliance verification documents along with the CIF in each of the contracting files.*

## Failure to Report to the Legislative Budget Board (LBB)

Auditors identified one contract for \$1,000,000 out of two audited contracts where the Board did not report an amendment to the LBB. The submission must include any required documentation such as the award, solicitation documents, renewal, amendments, addendums, extensions, attestation letters, and certain types of supporting records related to contracts. Contracts initially reported to the LBB database do not have to be reposted on the web under [Texas Government Code, Section 2261.253 \(g\)\(1\)](#). The Board stated that this violation occurred due to an oversight.

### LBB Reporting Requirements

Unless exempted, [Texas Government Code, Section 322.020](#) requires agencies to provide the LBB copies of major contracts and the associated request for proposal, invitation to bid, or comparable solicitation. Agencies must report contracts having a value that exceeds certain thresholds to the LBB. Maximum contract value includes the value of the contract, amendments, and all potential extensions or renewals, even if not exercised, the total amount both currently and potentially obligated.



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## Recommendation/Requirement

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The Board must report in compliance with the [LBB Contract Reporting Guide](#).

## Board Response

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*The TWDB agrees with the finding. Proper procedures and checklists are in place to report contracts and amendments to the LBB.*

## Travel Transactions

Auditors developed a representative sample of 25 travel transactions to ensure the Board complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

## Security

The audit included a security review to identify any of the Board's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner. Audit tests revealed the following security exceptions.

## Late Signature on Confidential Treatment of Information Acknowledgement Form

As a routine part of our security review, auditors evaluated the Board's compliance with the requirement that all agency users of Comptroller statewide financial systems must complete a CTIA form. The audit tests revealed three employees who gained access to the systems before signing the CTIA form. The Board stated that these violations occurred due to an oversight.

When a new user needs access to Comptroller statewide financial systems, the agency's security coordinator must first have the user read and sign the most updated version of the CTIA form, which the agency's security coordinator keeps on file for as long as the user has access to the systems, plus five years.

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## Recommendation/Requirement

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The Board should enhance its procedures to ensure that no user gains access to the statewide financial systems without a timely completed CTIA form.



## Board Response

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*The TWDB agrees with the finding. IT procedures compliant with Comptroller CTIA requirements are now in place and will be incorporated into written process documents.*

*TWDB will maintain compliance with this requirement by using the most updated version of the form.*

## Internal Control Structure

The review of the Board's internal control structure was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. As part of our planning process for the post-payment audit, auditors reviewed certain limitations that the Board placed on its accounting staff's abilities to process expenditures. The auditors reviewed the Board's security in USAS, Uniform Statewide Payroll/Personnel System (USPS), Texas Identification Number System (TINS) and voucher signature cards that were in effect on Aug. 29, 2018. Auditors did not review or test any internal or compensating controls that the Board might have relating to USAS, USPS or TINS security or internal transaction approvals. The audit tests revealed no findings.

## Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during our audit period to test for proper tracking in the Board's internal system. All assets tested were in their intended location, properly tagged, and properly recorded in the State Property Accounting system.



# Appendices

## Appendix 1 — Objectives, Scope, Methodology, Authority and Team

### Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of the Uniform Statewide Accounting System (USAS) and either:
  - The Uniform Statewide Payroll/Personnel System (USPS),
  - The Standardized Payroll/Personnel Report System (SPRS) or
  - The Human Resource Information System (HRIS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

### Audit Scope

We audited a sample of the Texas Water Development Board (Board) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning March 1, 2016, through Feb. 28, 2018, to determine compliance with applicable state laws.

*Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.*

The Board receives appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The Board should implement the recommendations listed in the Detailed Findings of this report. It is the Board's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Board's documents comply in the future. The Board must ensure that the findings discussed in this report are resolved.



## **Audit Methodology**

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

## **Fieldwork**

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what course of action or additional procedures would be appropriate.

## **Audit Authority**

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

## **Audit Team**

*Alberto Lañas, MBA, CTPM, CTCD, Lead Auditor*

*Eunice Miranda, CTCD*

*Steve Tamez*

*Angélica Villafuerte*



## Appendix 2 — Definition of Ratings

### Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant

### Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented.  These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

### Repeat Finding

Definition	Icon
This issue was identified during the previous post-payment audit of the agency.	